Date of Issuance: February 12, 2021

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION **RESOLUTION E-5108**
February 11, 2021

RESOLUTION

Resolution E-5108 approves, with adjustments, Efficiency Savings and Performance Incentive awards for three major California investor-owned utilities for program years (PY) 2018 and 2019, and delays the recovery of the incentives until 2022.

PROPOSED OUTCOME:

- Approves $28,211,450 in total shareholder incentives
- Approves $15,299,119 in incentives for Pacific Gas and Electric Company
- Approves $9,628,784 in incentives for Southern California Edison Company
- Approves $3,283,547 in incentives for San Diego Gas & Electric Company
- Delays recovery of these incentives until 2022

SAFETY CONSIDERATIONS:

- This Resolution is not expected to have an impact on safety.

ESTIMATED COST: This Resolution approves $28,211,450 in incentive payments ("awards") for implementing ratepayer-funded energy efficiency programs, to Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company.

By Advice Letters (AL) Pacific Gas and Electric Company 4304-G/5937-E, Southern California Edison Company 4281 E, and San Diego Gas & Electric Company 3598 E/2898 G filed on September 1, 2020.

SUMMARY

Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), and San Diego Gas & Electric Company (SDG&E) are referred to as investor-owned utilities (IOU).

1) This Resolution approves with adjustments each IOU's program year (PY) 2018 and partial 2019 Efficiency Savings and Performance Incentive (ESPI) awards.

2) This resolution does not include earnings for Southern California Gas Company. (SCG), as these earnings will be addressed after the Commission makes a determination on the outstanding Orders to Show Cause[1,2].

3) The final incentives are detailed in Tables 1 and 2.

4) The recovery of these incentives in rates and the payout of the incentives to the utilities' shareholders is not approved until 2022.

Table 1: Final ESPI Awards for 2018 and 2019

IOU	Awards Requested	Adjustment	Awards Approved
PG&E	$15,559,989	($260,870)	$15,299,119
SCE	$9,574,787	$53,997	$9,628,784
SDG&E	$3,160,139	$123,408	$3,283,547

Table 2: Approved ESPI Awards per Component

Component	PG&E	SCE	SDG&E
2018 Ex-Post Savings	$6,511,764	$4,614,573	$1,977,891
2019 Ex-Ante Savings	$1,695,085	$713,686	$120,634
2019 Ex-Ante Review Performance	$4,271,378	$2,914,252	$833,641
2019 Codes & Standards	$2,402,018	$909,214	$129,905
2019 Non-Resource	$418,853	$477,059	$227,461
2018 Ex-Ante Savings True Up	$21	$0	($4,049)
2018 Codes & Standards True Up	$0	$0	($1,936)
Awards for PY 2018 and 2019	**$15,299,119**	**$9,628,784**	**$3,283,547**

[1] *Assigned Commissioner's Amended Scoping Memo and Ruling for order to show cause against Southern California Gas Company – December 2, 2019.*

[2] *Order To Show Cause* directing Southern California Gas Company to address shareholder incentives for Codes and Standards advocacy expenditures.

BACKGROUND

Current Efficiency Savings and Performance Incentive Mechanism

The California Public Utilities Commission (CPUC) adopted the Efficiency Savings and Performance Incentive (ESPI) mechanism in 2013.[3] The ESPI mechanism is a set of rules for calculating incentive awards intended to motivate IOUs to achieve their CPUC-authorized energy savings goals by investing in energy efficiency programs as a core business strategy. Without such incentives, IOUs might instead devote scarce resources to supply-side procurement on which they earn a return.[4] By means of the ESPI mechanism, the IOUs are given annual monetary awards based on their portfolio performance in the areas of energy efficiency resource programs,[5] non-resource programs,[6] and codes & standards (C&S) programs. These awards are separate from the IOUs' authorized annual budgets and approved annual expenditures. They can be allocated toward capital projects or dividends.

In 2015, the CPUC adopted new energy efficiency planning, budget, and review processes and updated the timelines for ESPI review accordingly. The framework of the ESPI mechanism was otherwise retained.[7] In 2016, the CPUC modified the calculation of the expected (or "ex ante") savings review process performance scores. In 2018, a ruling shifted that year's expected energy savings adjustment timeline forward.[8] As was done in 2019, CPUC Staff released draft expected savings calculations early to inform the IOUs, by email in August 2020. Each year, the CPUC approves ESPI awards consistent with D.05-09-043, D.13-09-023, and the subsequent decisions.

Post 2021 –ESPI Moratorium

On November 6, 2020, the commission adopted decision D.20-11-013 imposing a moratorium on award payments under the ESPI beginning with 2021 program year advice letter earnings claims. The moratorium shall remain in effect pending subsequent action to assess whether, how, or when a new version of ESPI or a new incentive mechanism can be devised and implemented.

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[3] D.13-09-023.
[4] D.13-09-023 at page 86.
[5] A resource program is an energy efficiency program that is intended to achieve, and report quantified energy savings.
[6] A non-resource program is an energy efficiency program to which energy savings are not directly attributed, but which supports the energy efficiency portfolio through activities such as marketing, training and education, or emerging technology. See D.07-09-043, Section 9.1.
[7] D.15-10-028, Appendix 5.
[8] *Assigned Commissioner's Ruling Regarding 2016 Ex-Post and 2017 Ex-Ante Savings ESPI.*

With regards to pending ESPI payments, the decision concludes the IOUs shall remain eligible for ESPI awards claimed in their 2020 advice letter filings for program years 2018 and 2019, consistent with the rules in effect prior to the decision. This includes incentives for all remaining 2018 performance activity and the 2019 earnings claims that are to be awarded in 2020 consistent with the ESPI rules. Activities associated with 2019 activities that would be included in the 2021 ESPI advice letter are now subject to the moratorium adopted in the decision.

This moratorium is distinct from the one-year pause on the recovery of the incentives approved in this resolution, which is described further below.

Portfolio Categories for the ESPI Mechanism

A. **Energy Efficiency Resource Savings:** This is an award for net lifecycle resource program energy savings measured in MW, GWh and MMT. This component is capped at 9% of the resource program budget, excluding funding dedicated to administrative activities; C&S programs; Evaluation, Measurement, and Verification; and Community Choice Aggregators/Regional Energy Networks.

   The energy savings of the portfolio are determined through a combination of expected savings (as estimated pre-implementation, or "ex ante") and savings evaluated post-implementation (or "ex post"). Consequently, the energy efficiency resource savings award is a sum of expected and evaluated savings awards. IOUs apply for awards based on their expected savings in the year following the PY (i.e., in 2020 for PY 2019) and based on their evaluated savings two years following the PY (i.e., in 2020 for PY 2018).[9]

   To determine which measures will be subject to evaluation, the CPUC annually releases the "Uncertain Measures List" prior to the start of the PY.[10] The list of uncertain measures for PY 2019 was released by CPUC Staff on October 31, 2018.[11] Measures that are not on the Uncertain Measures List are called "not-uncertain deemed measures," and their expected savings estimates are used for the purposes of calculating the ESPI.

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[9] For certain situations such as a) large Custom projects that commence towards the close of the year and require extensive post-implementation measurement and verification, or b) joint IOU projects that provide evidence of unavoidable delays for accurate reporting, the Commission has allowed IOUs to claim savings after their initial reporting and approved them on a case-by-case basis.

[10] D.13-09-023, Section 7.3 defines uncertain measures as those measures for which Commission believes the net lifetime savings of the current database of energy efficiency resources (DEER) or non-DEER savings estimate may be as much as 50% or more under- or over-estimated.

[11] CPUC ESPI web page, *Final 2019 Uncertain Measure List.*

B. **Ex Ante Review (EAR) Process Performance**: This is a performance award for IOUs' conformance to EAR process standards of up to 3% of authorized resource program expenditures, excluding administrative costs.

The EAR performance award is the product of these expenditures and the total EAR performance score. Each IOU's total score is based on a performance review of their respective EAR activities in accordance with the metrics in Table 3.[12]

Table 3: Weights Adopted for the EAR Performance Metric Categories

Metric Category	Weight
1. Timing and Timeliness of Submittals	10%
2. Content, Completeness, and Quality of Submittals	30%
3. Proactive Initiative of Collaboration	10%
4. Program Administrator (PA)'s Due Diligence and QA/QC Effectiveness	25%
5. PA's Responsiveness to Needs for Process and Program Improvements	25%

C. **Codes and Standards (C&S) Advocacy Programs:** This is a management fee for the IOUs' advocacy of C&S. Calculated based on 12% of the authorized C&S program expenses, excluding administrative costs.

D. **Non-Resource Programs:** This is a management fee for implementing non-resource programs equal to 3% of the authorized non-resource program expenses, excluding administrative costs.

For the purposes of calculating the ESPI awards, program expenditures shall not exceed authorized budgets.

The CPUC relies on public versions of Utility Audit Branch (UAB) audit reports to verify the expenditures with which to calculate the C&S and non-resource program awards.[13] Past ESPI Resolutions have also used UAB audit reports to verify resource program expenditures with which to calculate the EAR performance awards. The UAB did not perform an audit of the PY 2018 resource program expenditures, so there are no EAR performance true ups in this Resolution.

PROTESTS

No protests were filed to dispute the IOU-requested incentive award amounts.

[12] D.16-08-019, Section 7.1.
[13] D.13-09-023, Ordering Paragraph (OP) 17.

DISCUSSION

2018 and 2019 Earnings Coefficients

This Resolution uses 2018 and 2019 approved earnings coefficients to calculate ESPI awards. The IOUs are now consistent in assigning original budgeted program categories for determining earnings coefficients.

Earnings coefficients determine the rate at which the IOUs will be paid for each unit of energy or demand savings achieved. They are derived by dividing the IOUs' authorized resource program budgets by their Net Lifecycle Goals.[14] The earnings coefficients for PY 2018 (used in this Resolution to calculate the 2018 evaluated resource savings award) were finalized in 2019 via CPUC approval of a joint Tier 1 Advice Letter filed by the California IOUs.[15] The earnings coefficients for PY 2019 were finalized in the approval of the joint Tier 1, Earnings Rates and Awards Cap Advice Letter[16], filed in 2020. Once savings are finalized in the *Savings Performance Statement*[17], they are multiplied by the earnings coefficients to determine the resource savings award component of the ESPI award.

The approved 2018 and 2019 earnings coefficients, or rates, are shown in Table 4.

Table 4: 2018 and 2019 Statewide Earnings Coefficients

Energy Savings Type	2018	2019
Electricity ($/GWh)	$2,731	$2,122
Peak Demand ($/MW)	$6,953	$5,296
Natural Gas ($/MMTh)	$20,231	$17,657

In these advice letters, the IOUs used the program categories from their budget filings submitted with the 2019 Annual Budget Advice Letters. In SDG&E's case, there was a discrepancy, the program categories in the advice letter differed from those in SDG&E's budget filing data in the California Energy Data and Reporting System (CEDARS)[18] and that of the program table filed in CEDARS. SDG&E's ESPI Advice Letters also included new programs that were not in the 2019 Annual Budget Advice Letters, or CEDARS, although these programs lacked expenditures. This discrepancy was also noted in

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[14] D.15-10-028, Section 3.1.
[15] CPUC ESPI web page, *2018 ESPI Earning Coefficients and Caps.*
[16] CPUC ESPI web page, *2019 ESPI Earning Coefficients and Caps.*
[17] CPUC ESPI web page, 2018 *Savings Performance Statement.*
[18] CEDARS is the Commission's online system for receiving various compliance data submittals. The CEDARS program expenditures came from the CEDARS website's Data tab.

Resolution E-5062.[19] This resolution orders that SDG&E correct this anomaly so that the program categories are consistent between the Annual Budget Advice Letter, the ESPI Advice Letter, and the program table filed in CEDARS. For the purpose of SDG&E's ESPI award, the program categories used in the 2019 Annual Budget Advice Letter were used.

2018 and 2019 Award Caps

The IOUs requested awards at or under their caps in the four incentive categories.

The award cap for each category is a percentage of the authorized budget for that category. If the approved expenditures are less than the previously authorized budget for a category, the expenditures are used to calculate the award (which will be less than the cap).[20]

The 2018 award caps are provided in Table 6.

Table 6: 2018 Award Caps by Category and IOU ($)

IOU	**Resource Savings** (9% of resource program budget)	**EAR Performance** (3% of resource program budget)	**Codes & Standards** (12% of C&S program budget)	**Non-Resource** (3% of non-resource program budget)
PG&E	$25,313,097	$8,437,699	$1,868,921	$772,894
SCE	$16,903,807	$5,634,602	$634,559	$451,202
SDG&E	$8,635,841	$2,878,614	$121,538	$217,708

The 2019 award caps[21] are provided in Table 7.

Table 7: 2019 Award Caps by Category and IOU ($)

IOU	**Resource Savings** (9% of resource program budget)	**EAR Performance** (3% of resource program budget)	**Codes & Standards** (12% of C&S program budget)	**Non-Resource** (3% of non-resource program budget)
PG&E	$20,484,049	$6,828,016	$2,402,018	$665,853
SCE	$16,263,698	$5,421,233	$1,038,534	$630,388
SDG&E	$7,712,915	$2,570,972	$134,283	$266,818

[19] Resolution E-5062.
[20] D.13-09-023, Attachment 1.
[21] CPUC ESPI web page, *2019 ESPI Earning Coefficients and Caps.*

Ex Ante Review (EAR) Performance Scores

The EAR Process Performance award equals the IOUs' weighted EAR performance scores multiplied by 3% of their approved resource program expenditures (excluding administrative costs). IOUs must calculate weighted EAR performance scores using the contributions of deemed and custom projects to net lifecycle savings.

Twice each year, the CPUC provides feedback to the IOUs on their EAR process performance by issuing midyear and final performance memos. The final performance memos contain EAR performance scores for deemed and custom projects. Final 2019 performance memos were released on March 30, 2020.[22] It should be noted that the scores for SCE was revised in June 2020. D.16-08-019 ordered that ESPI scores be weighted based on the proportion of deemed savings measures and custom measures in each IOU's portfolio.[23]

In Resolution E-5062, the CPUC ordered the IOUs to comply with the requirement in resolution E-5007 and calculate their own weighted EAR performance scores for their 2020 ESPI Advice Letters. All three IOUs complied as directed in resolution E-5007[24] however, PG&E and SCE did not correctly implement the methodology. The EAR scores derived by CPUC staff were higher than those submitted by the IOUs. The discrepancy is largely due to how workpapers are categorized to derive the deemed portion of the ex-ante review. As in the previous resolution, normalized metered energy consumption (NMEC) projects were counted as custom measure savings as they accounted for less than ten percent of the portfolio.[25] Table 8 shows the IOUs' 2019 deemed, custom, and total weighted scores.

Table 8: 2019 EAR Performance Scores

IOU	Deemed Score (%)	Custom Score (%)	Total Weighted Score (%)
PG&E	38.90	41.76	81.15
SCE	43.92	47.80	91.99
SDG&E	33.63	33.77	67.37

CPUC Adjustments of ESPI Awards

This Resolution modifies the total award requested by each IOU to reflect official expenditure reports; CPUC energy savings, award cap, and weighted EAR performance

[22] 2019 ESPI EAR Performance Memos.
[23] D.16-08-019, OP 19.
[24] Resolution E-5007.
[25] D.16-08-019 at 88.

score calculations; and CPUC audit reports.

Workbooks showing the CPUC's adjustments to IOU-submitted energy savings values and program expenditures are available on the CPUC's ESPI web page.

1) Adjustments to 2018 Evaluated Energy Savings Data

The 2018 evaluated savings adjustment is detailed in the *2018 Savings Performance Statement* and corresponding workbooks.[26] This adjustment results from fixing ESPI category assignments and updating installation rates as a result of evaluation findings, per Section 7.3 of D.13-09-023. Furthermore, Energy Division staff issued a memo[27] that the 2018 Commercial, Industrial and Agricultural Custom (CIAC) Impact Evaluation will not be released. As a result, this resolution will use 2017 gross realization rate and NTG adjustments[28] to adjust 2018 program administrators' commercial, industrial and agricultural custom electrical and gas savings claims.

2) Adjustments to 2018 Expected Energy Savings Data

The 2018 expected savings adjustment is detailed in the 2018 Savings Performance Statement and corresponding workbooks[29]. This adjustment results from fixing ESPI category assignments and updating installation rates as a result of evaluation findings, per Section 7.3 of D.13-09-023.

3) Adjustments to 2019 Expected Energy Savings Data

The 2019 expected savings award is detailed in the 2019 Savings Adjustment Statement, and corresponding workbooks.[30] The main adjustment to the expected savings was due to the removal of claims with installation dates prior to 2019. In addition to the removal of these claims, adjustments were made due to the structural data changes required by DEER Resolution E-4952[31]. There was also as non-routine, mid-year workpaper update for smart thermostat measures which required a closer look at installation dates versus workpaper effective dates.

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[26] CPUC ESPI web page, *2018 Savings Performance Statement, Workbooks, and Database.*
[27] See email from P. Gruendling to R.13.11.005 and A.17-01-013 service list on 10/27/2020.
[28] See Appendix E CPUC ESPI web page, *2017 Savings Performance Statement and Workbooks.*
[29] CPUC ESPI web page, *2018 Savings Performance Statement and Workbooks.*
[30] CPUC ESPI web page, *2019 Savings Adjustment Statement and Workbooks.*
[31] Resolution E-4952.

4) 2019 Eligible Expenditures

Expenditures that occurred in 2019 are eligible for ESPI awards in this Resolution. Expenditure-related calculations and adjustments are detailed in the *2019 Expenditures Workbook*.[32]

a) Reconciliation of ESPI Advice Letters and CEDARS submittals

CPUC Staff relied on the annual reports in the California Energy Data and Reporting System (CEDARS) for reviewing expenditures.

As directed by *Resolution E-5007* and the *Guidelines for the 2020 AL Submission*, the IOUs attached spreadsheets showing their annual expenditures to their ESPI Advice Letters.[33] The CPUC reviewed the spreadsheets for completeness and compared the expenditures to the IOUs' official expenditures reported in the Annual Claims submittal via CEDARS.

- PG&E: The Advice Letter total was lower than the CEDARS total, but the spreadsheet total almost matched the CEDARS total.
- SCE: The Advice Letter, spreadsheet, and CEDARS totals matched.
- SDG&E: The Advice Letter total was lower than the CEDARS total, and the spreadsheet total was higher than the CEDARS total.

The IOUs must inform the CPUC Staff at the time of submitting their ESPI Advice Letters if any information sought in the ESPI guidelines template will result in a discrepancy between their Advice Letters and their annual CEDARS submittals. The eligible expenditures accepted by the CPUC prior to other necessary exclusions are shown in Table 9. This is followed by a discussion on the other exclusions.

Table 9: 2019 Eligible Expenditures

ESPI Program Category	PG&E	SCE	SDG&E
Resource Programs	$205,304,978	$105,938,203	$49,146,782
C&S Programs	$24,581,172	$7,576,783	$1,082,545
Non-Resource Programs	$13,961,754	$15,901,979	$7,582,046

b) Exclusion of Statewide Marketing Education & Outreach (ME&O), Community Choice Aggregators/Regional Energy Networks, Evaluation Measurement and Verification, and On-Bill Financing Loan Pool expenditures

No adjustments by the CPUC were necessary at this time.

[32] CPUC ESPI web page, *2019 Expenditures Workbook.*
[33] CPUC ESPI web page, *Guidelines for the 2020 AL submission.*

All IOUs properly excluded expenditures related to Statewide ME&O,[34] Community Choice Aggregators/Regional Energy Networks, Evaluation Measurement and Verification,[35] and On-Bill Financing Loan Pool from their award calculations.

c) Exclusion of expenditures over CPUC-established cost targets

The CPUC has directed the IOUs to limit their budgets for certain cost categories as follows:[36]

- A cap on IOU program administrative costs at 10% of IOU program budgets,
- A target for third party (3P) and local government partnership (LGP) program administrative costs at 10% of 3P and LGP program direct cost budgets, and
- Targets for ME&O and Direct Implementation Non-Incentive (DINI)[37] costs at 6% and 20%, respectively, of IOU program budgets.

These ratios are shown below in terms of expenditures to provide information on how well the IOUs are achieving the CPUC's goal "to control costs to implement energy efficiency programs to get the most bang for the buck."[38] **In 2019, PG&E exceeded the administrative costs target for 3P/LGP programs, and all IOUs exceeded the DINI target.**[39] Table 10 shows the IOUs' expenditure percentages in these categories.

Table 10: 2019 IOU Expenditure Percentages

Cap or Target (% of expenditures)	PG&E	SCE	SDG&E
IOU Administrative Costs Cap (10%)	9%	5%	8%
3P/LGP Administrative Costs Target (10%)	14%	10%	8%
ME&O Target (6%)	4%	1%	3%
DINI Target (20%)	30%	20%	32%

Since the ESPI mechanism does not incentivize administrative costs, PG&E's excessive administrative costs do not affect the ESPI awards given via this Resolution. Throughout prior budget cycles, the CPUC has addressed overspending on ME&O and DINI expenditures and has required the utilities to minimize their non-incentive expenditures to achieve the cost targets.[40] While the CPUC has allowed over- expenditures in these two

[34] D.13-12-028 at 94; Resolution E-4897 at 12.
[35] D.13-09-023, OP 3.
[36] D.09-09-047 at 63 and OP 13.
[37] DINI costs have also been referred to as "Implementation – Customer Services" and "Non- Incentive and Rebates Budget for program delivery," e.g. in D.12-11-015 at 98 and D.09-09-047 at 74.
[38] D.09-09-047 at 62.
[39] CPUC ESPI web page, *2018 Expenditures Workbook*, "Adjusted DINI ME&O" worksheet.
[40] D.09-09-047, Section 1; D.12-11-015, Section 6.2.

categories, it does not intend to reward the IOUs based on these excess expenditures.

Expenditures in excess of the DINI target were excluded from award calculations. Table 11 shows the final expenditure amounts approved and used in the award calculations.

Table 11: 2019 Authorized Expenditures Used for Award Calculation

ESPI Program Category	PG&E	SCE	SDG&E
Resource Programs	$175,442,906	$105,602,031	$41,246,293
C&S Programs	$24,581,172	$7,576,783	$1,082,545
Non-Resource Programs	$13,961,754	$15,901,979	$7,582,046

5) Weighting of Ex Ante Review performance scores

As described in the "Ex Ante Review (EAR) Performance Scores" section above, CPUC Staff applied weights to the custom and deemed EAR performance scores based on their respective proportions of net lifecycle savings (including market effects), before adding these to calculate the 2019 total EAR performance scores. The weighted scores calculated by CPUC staff were higher for PG&E and SCE and they matched for SDG&E.

6) True ups based on the 2018 audit reports

In August 2020, the Utility Audit Branch (UAB) issued audit reports on 2018 C&S and non-resource energy efficiency programs. The reports were based on data from CEDARS and other documentation. The IOUs are responsible for incorporating the audit report findings in their ESPI Advice Letters as true ups to their awards.

SCE calculated the net present value of the 2018 audit adjustments using their authorized weighted average cost of capital (WACC). The SCE audit recommended moving non-resource expenditures from PY2018 into PY2017. Because SCE was already at its cap in PY2018, it resulted in no decrease of award and a small award increase in PY2017. SCE filed for a deduction of $400 from 2018. Staff rejected that request and made the adjustments to comply with the audit report. SDG&E did not include the audit adjustments in their advice letter. Therefore, CPUC staff included the recommendations of the audit in the awards. Lastly, the audit report found that PG&E's program expenditures were in compliance with all applicable CPUC policies and made no recommendations for adjustments.

All IOUs correctly applied the WACC to their true-ups as recommended in Resolution E-5062. Finally, CPUC Staff accounted for award caps in the true up calculations.

IOU-Specific Adjustments

We provide an IOU-specific breakdown of adjustments and explanation below.

1. PG&E

The CPUC approves an incentive amount of $15,299,119 for PG&E, which is $260,870 less than their requested amount of $15,559,989. PG&E's submitted program savings and expenditures were both adjusted as described above. PG&E's annual total in CEDARS was $15,019,943 higher than their ESPI Advice Letter total, but their ESPI Advice Letter attachment's was only $25 less than CEDARS. CPUC Staff used the CEDARS data to calculate the awards.

1.1 Energy Efficiency Resource Savings

- 2018 Evaluated Energy Savings

PG&E's award is $620,476 less than requested due to gross realization rates (GRR) and net to gross (NTG) adjustments (see section 1).

ESPI Component	2018 Cap*	Requested	Approved
2018 Evaluated Savings	$23,467,246	$7,132,241	$6,511,764

*2018 savings award cap minus 2018 Expected Savings Award earned in 2019

- 2019 Expected Energy Savings

PG&E's award is $1,985 less than requested due to minor updates to the ESPI categories assigned to a couple measure groups after the CPUC's draft workbooks were released on Aug 6th, 2020.

ESPI Component	2019 Cap	Requested	Approved
2019 Expected Savings	$20,484,049	$1,697,070	$1,695,085

1.2 Ex Ante Review (EAR) Process Performance

PG&E's award is reduced by their excess DINI expenditures (see section 4c). PG&E's 2019 EAR performance score is weighted by their deemed and custom savings (see section 5). PG&E's weighted score is higher than the score they used to request their award; therefore their award is higher than requested.

ESPI Component	2019 Cap	Requested	Approved
2019 EAR Performance	$6,828,016	$3,909,786	$4,271,378

1.3 Codes & Standards Programs

PG&E's award is approved as requested.

ESPI Component	2019 Cap	Requested	Approved
2019 Codes & Standards	$2,402,018	$2,402,018	$2,402,018

1.4 Non-Resource Programs

PG&E's award is approved as requested.

ESPI Component	2019 Cap	Requested	Approved
2019 Non-Resource	$665,852	$418,853	$418,853

1.5 True Ups

PG&E's requested 2018 Expected Savings True Up is accepted. The 2018 true ups include PG&E's weighted average cost of capital.

Component	Requested	Approved
2018 Ex-Ante Savings True Up	$21	$21

PG&E's final 2020 award values including all adjustments are shown in Table 12.

Table 12: PG&E 2020 ESPI Awards

Component	Requested	Approved
2018 Ex-Post Savings	$7,132,241	$6,511,764
2019 Ex-Ante Savings	$1,697,070	$1,695,085
2019 Ex-Ante Review Performance	$3,909,786	$4,271,378
2019 Codes & Standards	$2,402,018	$2,402,018
2019 Non-Resource	$418,853	$418,853
2018 Ex-Ante Savings True Up	$21	$21
Total Payment	**$15,559,989**	**$15,299,119**

2. SCE

The CPUC approves an incentive amount of $9,628,784 for SCE, which is $53,997 more than their requested amount of $9,574,787. SCE's submitted program savings and expenditures were both adjusted as described above. SCE's ESPI Advice Letter matched their CEDARS data.

2.1 Energy Efficiency Resource Savings

- 2018 Evaluated Energy Savings

SCE's award is $38,706 less than requested due to gross realization rates (GRR) and net to gross (NTG) adjustments (see section 1).

ESPI Component	2018 Cap*	Requested	Approved
2018 Evaluated Savings	$15,888,176	$4,653,279	$4,614,573

*2018 savings award cap minus 2018 Expected Savings Award earned in 2019

- 2019 Expected Energy Savings

SCE's approved award is $1,027 less than requested due to minor updates to the ESPI categories assigned to a couple measure groups after the CPUC's draft workbooks were released on Aug 6th, 2020.

ESPI Component	2019 Cap	Requested	Approved
2019 Expected Savings	$16,263,698	$714,713	$713,686

2.2 Ex Ante Review (EAR) Process Performance

SCE's award is reduced by their excess DINI expenditures (see section 4c). SCE's 2019 EAR performance score is weighted by their deemed and custom savings (see section 5). Their weighted score is higher than their requested award calculation, resulting in a higher approved award.

ESPI Component	2019 Cap	Requested	Approved
2019 EAR Performance	$5,421,233	$2,820,922	$2,914,252

2.3 Codes and Standards (C&S) Programs

SCE's award is approved as requested.

ESPI Component	2019 Cap	Requested	Approved
2019 C&S	$1,038,534	$909,214	$909,214

2.4 Non-Resource Programs

SCE's award is approved as requested.

ESPI Component	2019 Cap	Requested	Approved
2019 Non-Resource	$630,388	$477,059	$477,059

2.5 True Ups

The UAB audit found Non-Resource expenditures in 2018 that belonged in 2017. As a result, the 2017 Non-Resource award was increased. SCE's 2018 Non-Resource True Up is denied because they exceeded their 2018 Non-Resource award cap and the adjustment made by the UAFCB audit report did not result in decreasing their award. The 2017 and 2018 true ups include SCE's weighted average cost of capital.

Component	Requested	Approved
2017 Non-Resource True Up	$0	$431
2018 Non-Resource True Up	($400)	$0

SCE's final 2020 award values including all adjustments are shown in Table 13.

Table 13: SCE 2020 ESPI Awards

Component	Requested	Approved
2018 Ex-Post Savings	$4,653,279	$4,614,573
2019 Ex-Ante Savings	$714,713	$713,686
2019 Ex-Ante Review Performance	$2,820,922	$2,914,252
2019 Codes & Standards	$909,214	$909,214
2019 Non-Resource	$477,059	$477,059
2017 Non-Resource True Up	$0	$431
2018 Non-Resource True Up	($400)	$0
Total Payment	**$9,574,787**	**$9,628,784**

3. SDG&E

The CPUC approves an incentive amount of $3,283,547 for SDG&E, which is $123,408 more than their requested amount of $3,160,139. SDG&E's submitted program savings and expenditures were both adjusted as described above. SDG&E's ESPI Advice Letter total was $7,389,057 lower than their annual total in CEDARS, and their ESPI Advice Letter attachment's total was $3,111,970 higher than their CEDARS total. This is a repeated issue for SDG&E's expenditures. SDG&E needs to request their award based on their CEDARS data. CPUC Staff used the CEDARS data to calculate the awards.

3.1 <u>Energy Efficiency Resource Savings</u>

- 2018 Evaluated Energy Savings

SDG&E's award is $128,737 more than requested due to gross realization rates (GRR) and net to gross (NTG) adjustments (see section 1).

ESPI Component	2018 Cap*	Requested	Approved
2018 Evaluated Savings	$8,452,812	$1,849,154	$1,977,891

*2018 savings award cap minus 2018 Expected Savings Awards Earned in 2019

- 2019 Expected Energy Savings

SDG&E's award is $552 less than requested. SDG&E used the CPUC's draft savings values from August 6th, 2020 which were updated in late August due to a few measure groups being reassigned to a different ESPI category. This had a minor effect on SDG&E.

ESPI Component	2019 Cap	Requested	Approved
2019 Expected Savings	$7,712,915	$121,186	$120,634

3.2 <u>Ex Ante Review (EAR) Process Performance</u>

SDG&E's award is reduced by their excess DINI expenditures (see section 4c), which differed from SDG&E's calculation of these. SDG&E's 2019 EAR performance score is weighted by their deemed and custom savings (see section 5).

ESPI Component	2019 Cap	Requested	Approved
2019 EAR Performance	$2,570,972	$858,796	$833,641

3.3 Codes and Standards (C&S) Programs

SDG&E's award is approved as requested.

ESPI Component	2019 Cap	Requested	Approved
2019 C&S	$134,283	$129,905	$129,905

3.4 Non-Resource Programs

SDG&E's award is higher than requested because their CEDARS non-resource expenditures were higher than in their ESPI award advice letter.

ESPI Component	2019 Cap	Requested	Approved
2019 Non-Resource	$266,818	$205,147	$227,461

3.5 True Ups

SDG&E's 2018 Ex-Ante Savings True Up is approved as requested. SDG&E receives the 2018 Codes & Standards True Up due to 2018 audit findings. The 2018 true ups include SDG&E's weighted average cost of capital.

Component	Requested	Approved
2018 Ex-Ante Savings True Up	($4,049)	($4,049)
2018 Codes & Standards True Up	$0	($1,936)

SDG&E's final 2020 award values including all adjustments are shown in Table 14.

Table 14: SDG&E 2020 ESPI Awards

Component	Requested	Approved
2018 Ex-Post Savings	$1,849,154	$1,977,891
2019 Ex-Ante Savings	$121,186	$120,634
2019 Ex-Ante Review Performance	$858,796	$833,641
2019 Codes & Standards	$129,905	$129,905
2019 Non-Resource	$205,147	$227,461
2018 Ex-Ante Savings True Up	($4,049)	($4,049)
2018 Codes & Standards True Up	$0	($1,936)
Total Payment	**$3,160,139**	**$3,283,547**

One-year Delay of Incentive Recovery

While the shareholder incentive amounts reflected in this resolution are approved, we are ordering a delay in recovering the costs for and paying out these incentives until 2022. During the economic recession caused by the COVID-19 pandemic, delaying the recovery of these shareholder incentive costs from ratepayers is a simple action we can take in this instance. Thus, the incentives approved in this resolution shall not be recovered from ratepayers nor paid to shareholders until 2022.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this Resolution must be served on all parties and subject to at least 30 days' public review and 20-day comment prior to a vote of the CPUC. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day review and 20-day comment period for the draft of this Resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

Comments were timely received by PG&E, SCE and SDG&E. All comments supported the Commission's decision to delay recovery of the award until 2022 to avoid a customer rate impact in 2021. PG&E accepts the resolution's award of $15,299,119. SDG&E will correct the discrepancies identified in the resolution, including ESPI AL program categories, removal programs not included in its ABAL, and reported direct implementation ("DI") expenditures to exclude pre-2019 expenditures and realign DI expenditures within the appropriate sub-cost categories. SDG&E also asked the Commission to establish a date for the 2022 award; however, we decline to establish one at this time.

FINDINGS

1. The IOUs' Coefficient Advice Letters were consistent in using program categories from their original budget filings for SCE and PG&E, but SDG&E was not consistent.

2. SCG's earnings are not considered in this resolution and will be addressed after the resolution of the outstanding Orders to Show Cause.

3. There is a need to clarify which program categories should be used by IOUs to compute annual earnings coefficients considering recent changes to fund-shifting rules that do not require IOUs to seek approval for moving budgets among programs.

4. Inclusion of resource programs with or without energy savings increases award

amounts because their budgets increase the earnings coefficients and award caps.

5. There is a need to further research the appropriate application and reasonableness of including no-savings resource program budgets and expenditures for the ESPI awards mechanism.

6. Ex ante review (EAR) performance scores must be weighted based on the proportion of savings attributed to deemed and custom measures in each IOU's portfolio.

7. The CPUC relies on official annual CEDARS submittals to review approved budget and expenditure data.

8. There were unexplained discrepancies between ESPI Advice Letters and official CEDARS data although the IOUs were directed to inform CPUC if any information sought in the *Guidelines for the 2020 AL Submission* would result in a discrepancy with their official CEDARS data.

9. PG&E, SCE, and SDG&E's Direct Implementation Non-Incentive expenditures comprised over 20% of their respective IOU program expenditure totals in 2019.

10. The current ESPI mechanism does not provide an insight into whether certain programs show larger energy savings as a result of higher Marketing Education and Outreach and Direct Implementation Non-Incentive expenditures.

11. The IOUs' respective weighted average costs of capital must be applied to past award amounts when calculating true ups.

12. We utilize and rely on the UAB audit reports to verify expenditures on their findings that some expenditures belong in program years other than the one audited in each report.

13. Positive true ups should not be applied in excess of award caps and negative true ups should be applied to the original expenditures, not the award cap, of a capped previous award.

14. There are no EAR Performance True Ups in this Resolution as the UAB did not audit any 2018 resource programs.

15. It is appropriate to modify the IOUs' requested awards based on the adjustments detailed in this Resolution.

16. A moratorium has been imposed on award payments under the Efficiency Savings and Performance Incentive Mechanism (ESPI) beginning with 2021 program year advice letter earnings claims.

17. Since the 2018 Commercial, Industrial and Agricultural Custom (CIAC) Impact Evaluation will not be released, it is appropriate to use 2017 gross realization rates

and net-to-gross ratios to determine 2018 earnings.

18. Delaying the recovery of the approved incentives until 2022 prevents any additional costs to ratepayers during 2021.

THEREFORE, IT IS ORDERED THAT:

1. The request of Pacific Gas and Electric Company for ESPI awards as made in Advice Letter 4304-G/5937-E is approved with modifications to the original request as listed herein. PG&E is awarded $15,299,119 in 2020 ESPI incentives.
2. The request of Southern California Edison Company for ESPI awards as made in Advice Letter 4281-E is approved with modifications to the original request as listed herein. SCE is awarded $9,628,784 in 2020 ESPI incentives.
3. The request of San Diego Gas & Electric Company for ESPI awards as made in Advice Letter 3598-E/2898-G is approved with modifications to the original request as listed herein. SDG&E is awarded $3,283,547 in 2020 ESPI incentives.
4. The incentives approved in this resolution shall not be recovered from ratepayers nor paid to shareholders until 2022.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on February 11, 2021; the following Commissioners voting favorably thereon:

/s/ Rachel Peterson
RACHEL PETERSON
Executive Director

MARYBEL BATJER
President
MARTHA GUZMAN ACEVES
CLIFFORD RECHTSCHAFFEN
GENEVIEVE SHIROMA
Commissioners